

AR21

1976 Annual Report

Slater Steel

Slater Steel Industries Limited

Highlights (in thousands of dollars except per share data)	1976	1975
Net sales	\$50,288	\$63,846
Net earnings	\$ 3,950	\$ 8,236
Per common share	\$ 1.38	\$ 3.03
Fixed asset expenditures — net	\$ 3,277	\$ 4,945
Depreciation	\$ 1,990	\$ 1,711
Working capital	\$17,785	\$ 8,354
Fixed assets — net	\$26,097	\$24,810
Total assets	\$76,058	\$72,543
Common shareholders' equity	\$41,759	\$39,853
Per common share	\$ 16.17	\$ 15.43

1976-1975

Annual meeting The Annual Meeting of Shareholders will be held at 11:00 a.m. on Wednesday, July 21, 1976 at The Royal Connaught Hotel, Hamilton, Ontario.

Interim Report

September 30, 1976

AR21

**Slater Steel
Industries Limited**

681 KING STREET WEST, HAMILTON, ONTARIO

**Slater Steel
Industries Limited**

SLATER STEEL INDUSTRIES LIMITED

Consolidated Statement of Earnings

(In Thousands of Dollars)
(Unaudited)

	SIX MONTHS TO SEPTEMBER 30		QUARTER ENDED SEPTEMBER 30	
	1976	1975	1976	1975
Net sales	\$ 27,970	\$ 27,712	\$ 13,278	\$ 12,678
Cost of sales, excluding the following items	25,620	24,965	12,135	11,634
Depreciation	1,110	1,024	551	460
Interest on long term debt	574	48	293	24
Other interest	126	475	58	275
	27,430	26,512	13,037	12,393
Income taxes	540	1,200	241	285
	195	527	79	127
Earnings before equity in earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)	345	673	162	158
* Equity in earnings of IPSCO	724	1,131	469	419
Net earnings for the period	\$ 1,069	\$ 1,804	\$ 631	\$ 577
Net earnings per common share	34¢	62¢	21¢	18¢

Consolidated Statement of Changes in Financial Position

(In Thousands of Dollars)
(Unaudited)

	SIX MONTHS TO SEPTEMBER 30		SIX MONTHS TO SEPTEMBER 30	
	1976	1975	1976	1975
SOURCE OF FUNDS				
Operations				
Earnings before equity in earnings of IPSCO	\$ 345	\$ 673	\$ 345	\$ 673
Depreciation	1,110	1,024	1,110	1,024
Deferred income taxes	-	66	-	66
Dividends received	-	234	-	234
Funds from operations	1,455	1,997	1,455	1,997
Reduction of loans to Trustees of				
Share Purchase Plan	39	39	39	39
	1,494	2,036	1,494	2,036
USE OF FUNDS				
Net additions to fixed assets	397	2,018	397	2,018
Redemption of debentures	12	108	12	108
Retirement of preference shares	76	101	76	101
Dividends	1,078	1,078	1,078	1,078
	1,555	3,305	1,555	3,305
DECREASE IN WORKING CAPITAL	\$ 61	\$ 1,269	\$ 61	\$ 1,269

TO OUR SHAREHOLDERS:

Earnings for the first six months of Fiscal 1977 were \$1,069,000 or 34¢ per common share, a decrease of 41% from earnings of \$1,804,000, or 62¢ per share, in the same period last year.

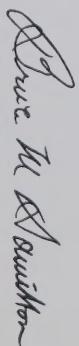
Burlington Steel Division shipments continue to be affected by the depressed market for construction related steel bar products. The low activity level in the construction business has persisted since late 1974 and at this stage, it is difficult to project at what time there will be any appreciable recovery of this market. Special bar products, including forging bar quality, proprietary shapes and alloy grades, have shown significant results during the past six months with a substantial contribution towards maintaining the Division's profitability. We are expanding our participation in the marketplace with these special quality steels in order to establish our position in a broader range of applications and industries.

Major capital expansion relating to modernization of our Grinding Ball Shop facilities for the Burlington Steel Division was commenced in the September quarter. The existing facilities will be shut down for the month of January for installation of new equipment and, after a commissioning period, we expect to achieve planned productivity increases by April 1977. While this modernization will cost \$1 million, we have cut back capital spending programs in other areas due to decreased earnings and the unpredictability of the economic recovery.

Sales for the Slater Products Division continue to be 10% below last year's comparative level reflecting curtailed utility spending and severely competitive pricing within the pole line hardware industry. Our concentration on seeking additional opportunities in the Original Equipment Market has been encouraging and has resulted in increased participation in the markets for forgings, stampings, aluminum castings and process conversion services. Plans for new facilities on land purchased in Burlington, Ontario, have been deferred until economic conditions within the Utilities' market show signs of strengthening.

Anti-inflation controls have now been in effect for over one year and have resulted in extensive delays in matters of wage and salary administration, as well as substantial uncertainties of direction in the business sector.

The published results of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) for their latest quarter ended August 31, 1976, reflect sales 17% higher than the comparative quarter in the previous year and equal to the peak sales levels achieved in 1974. Earnings have improved over the prior quarter but are only 50% of results recorded in 1974 as a result of prices being inadequate to offset increased operating costs. It is encouraging to note the recent booking of a \$25 million order for pipe, the largest single order recorded by IPSCO. Slater Steel equity of \$724,000 in IPSCO's earnings for our first six months is shown in the Consolidated Statement of Earnings. There was no dividend declared or paid by IPSCO during this period. Despite the uncertainties that are present in the markets which we serve, we anticipate that our third quarter will show an improvement over the second quarter in both sales and earnings.


Bruce M. Hamilton
President

November 10, 1976
Hamilton, Ontario

* Equity in earnings of IPSCO is for the period ended August 31, 1976 based on the latest published information issued by IPSCO.



Bruce M. Hamilton, President

President's message

Fiscal 76 performance As was anticipated, Fiscal 76 was an uncertain and unpredictable year, which resulted in a drop in both sales and earnings following a previously strong two year period. Our financial results were primarily affected by extreme softening in demand for steel bars, especially products identified with the construction industry markets. The exceptionally high demand for steel during the previous year showed signs of subsiding in our first fiscal quarter, bottoming during the second and third quarters to shipment levels representing less than 50% of our manufacturing capacity, and finally making a modest recovery in our fourth and final quarter.

The major improvements to our manufacturing facilities at Burlington Steel and the increased attention given to product quality and innovation enabled us to broaden our market interests in the special bar quality field and produce a wider range of bar sections and shapes for application to the automotive, agricultural and utility markets.

The Slater Products Division achieved a record performance in both sales and earnings due to the continued demand for E.H.V. hardware for use in expansion programs of several provincial utilities. Our emphasis on both product design and development was a major factor in our participation in the utilities market.

The reduction in world steel demand over the past year also took its toll on the market for pipe products. This resulted in a significant drop in the sales and earnings of Interprovincial Steel and Pipe Corporation Ltd. reducing the contribution to our earnings from this investment to 44% of Fiscal 75. IPSCO's overall performance was particularly good under these depressed market conditions because of the support from their broadened market interests and improved manufacturing efficiencies. At the same time, the com-

pany benefited from the strengthening of their range of products and services through the acquisition of two companies – Wescan Coating Ltd., a fusion bond coating facility in Edmonton, and Brooks Tube Ltd., a manufacturer of pressure tubing located at Brooks, Alberta.

The net effect of the foregoing operating results was a decrease of 21% in our consolidated sales to \$50,288,000 in the Fiscal 76 period ended April 3, 1976, compared to the previous twelve month period. Net earnings declined from \$8,236,000 in Fiscal 75 to \$3,950,000 as a result of the substantial decline in both sales revenue and manufacturing activity. It is of concern that the general business recession did not support sufficient increases in selling prices to offset rising manufacturing costs related to the escalation of payments for utilities, raw materials, supplies and wages.

Anti-Inflation Board legislation

Slater Steel has complied fully in providing necessary documentation of our five year financial performance for our various product lines to the Anti-Inflation Board. It is recognized that government action was necessary to curb inflation in Canada, although the indeterminate processes and decisions of the Anti-Inflation Board create uncertainty and incredulity within our industry. There are many issues in the A.I.B. regulations that are yet to be resolved, which could have a significant impact on our future business health.

Capital spending The major capital spending program at our steel operations, providing increased capacity in our Melt Shop, Finishing and Warehousing facilities, was completed early in Fiscal 76.

While the drop in steel demand did not enable us to take full advantage of the expanded manufacturing capacity, productivity levels in the primary operations improved by 25% over the average last year. At the same time, the increased warehousing space offered greater flexibility to our operations during a business period of cyclical and unpredictable trends, as well as reliable service to our customers. Our current capital spending relates to the modernization of our Ball Shop facilities and supplementary equipment to improve product reliability and quality.

During the year our Slater Products Division acquired a thirty acre site in Burlington, Ontario for future expansion needs. Engineering plans have been completed for the systematic relocation of our manufacturing facilities over a three to five year period. It is anticipated that the initial phase of this program, which will provide warehousing facilities, will begin in Fiscal 77. This move will free up substantial space in our present plant to allow for installation and improvement of operating equipment necessary for our planned growth.

Future outlook We expect to see a general improvement in our sales and earnings position in the forthcoming fiscal year. This will occur as a gradual upward trend, the pattern for which has been established in the final quarter of the current year. The major contribution toward this change will come from our steel Division reflecting a modest recovery of this severely depressed segment of our business. At the same time, the high production and improved product mix will enhance profitability at Burlington Steel.

The Slater Products Division is being affected by substantial cutbacks and deferrals of several major provincial



Large diameter spiral weld pipe produced by IPSCO is used exclusively for the transmission of petroleum and natural gas. IPSCO has pioneered the development of this class of high grade thin wall steel pipe.

utility construction projects. This primarily affects the E.H.V. hardware market where we have had a preferred position. Particular emphasis will be directed to standard hardware requirements in the electrical distribution and communications markets to offset this change in market direction. Our sales area has been strengthened and will be supported by active engineering involvement in product improvement and development, as well as field services. We will also seek additional opportunities in the O.E.M. markets to supply forgings, aluminum castings and process conversion services.

Sales prospects for Interprovincial Steel and Pipe Corporation Ltd. indicate the same positive strengthening trend as at Burlington Steel. The general activity in pipe sales is showing some improvement and IPSCO's broadened range of products and services should bring improved stability and growth to their business performance.

We have continued to assess the feasibility of a new mini-mill steel facility to produce wire rod. The overall engineering concept which would provide optimum productivity to a highly competitive, but opportune, market is completed. Many

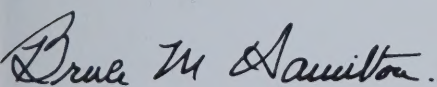
potential sites have been examined in Ontario, considering the relative impact of the numerous criteria vital to final selection. The major unresolved issues relate to raw material and the preferred process for iron ore reduction, assuming that iron pellets will be required as a major supplement to scrap as furnace charge material. Continuing activity is being conducted in both of these areas which should enable us to reach a decision on this project by year end.

Directors On September 5, 1975, Mr. Harold H. Leather resigned as a Director of the Company and as a member of the Executive Committee. Mr. Leather has always taken a keen interest in the affairs of the Company through his close association dating back to his election as a Director of a predecessor company in

1948. Mr. Leather's extensive experience in both business and industry has provided our company with invaluable advice and support over his many years as a Director, for which we are most grateful. Dr. Arthur N. Bourns, President and Vice-Chancellor of McMaster University, was appointed a Director of the Company to fill this vacancy on our board.

Employees In January, 1976, Mr. A. Michael Parent resigned as Vice President – General Manager of the Slater Products Division. His replacement has not been selected at this time, and I have undertaken to provide the direct management of this Division until a suitable appointment can be made.

In spite of the divergence of business volume in our manufacturing Divisions during the past year, the overall performance of your Company, under changing and unpredictable market trends, was commendable. We were able to respond in this difficult and demanding business period which required many adjustments in scheduling, manning, and controlling our operations. The credit for these results is with our people, who continued to provide support and participation in the many activities associated with the running of our business. The Directors and Officers of Slater Steel Industries Limited commend our employees for their contribution and express sincere appreciation for their continuing interest and hard work.



Bruce M. Hamilton, President



John E. Fogarty,
Vice President – General Manager

Burlington Steel

The International economic recession which began sixteen months ago, has continued through much of Fiscal 76. Steel industry sales were the lowest in twenty years, and the construction market was particularly affected because of the deferral of major capital projects. As steel bar sales were more seriously affected than flat-rolled sales, and because we had been particularly dependent on the construction industry, Burlington Steel was extremely vulnerable. Consequently, our mill operated near 50% of capacity for several months. However, the efficiency we gained from recent modernization programs, together with our cost reduction activities and the broadening of our product line, enabled us to avoid a loss position for the year.

Sales gradually improved as we approached the end of Fiscal 76 as the result of increased business and consumer confidence, as well as depletion of inventories of steel service centres and major consumers. Our newly proven ability to produce specialized steel grades and sections also contributed to this favourable trend.

Marketing Rebar sales eventually dropped to levels not experienced in the past ten years revealing the magnitude of the cyclical demand for this product. During the first four months of the year, hedge buying was so extensive that it ultimately exceeded the total rebar sales for the remainder of the year. The demand for many of our standard merchant products was also curtailed, but our concentration on sales to the utilities market helped maintain shipments.

We also pursued opportunities offered by the farm machinery and automotive markets. Special bar shapes, alloy steel compositions and proprietary services enabled us to diversify our product mix and add many new names to our list of customers. The net effect was to improve

our sales and earnings potential while lessening our dependence on one market area.

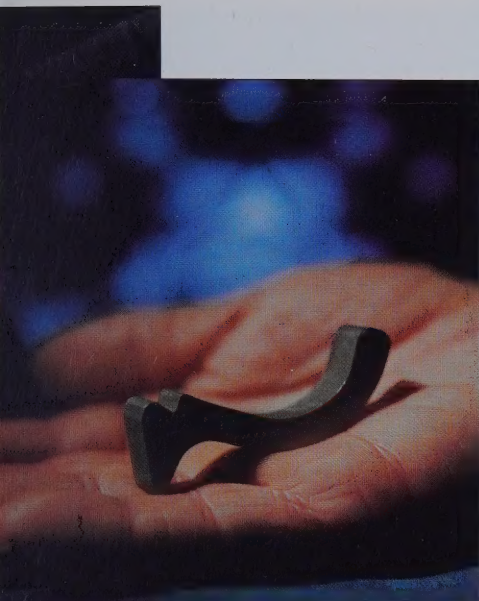
We also participated with other Canadian steel companies and the Federal government to discourage dumping of off-shore steel into Canada at prices reflecting the depressed foreign market economy. Each embassy in Ottawa was contacted and all Canadian trade missions, located in foreign capitals, voiced our protest.

The prices of our products in the Canadian marketplace were reasonably sustained considering the price deterioration experienced in other countries, and our prices no longer were among the lowest in the world, as they had been a year earlier. This minimized export opportunities and precluded price increases to cover rapidly escalating energy, labour and raw material costs.

Manufacturing During Fiscal 76 our total raw steel production declined to 170,000 tons from the 233,000 ton level of the previous year. Our record 209,000 ton rolling mill production of the prior year was similarly reduced to 158,000 tons. Manufacturing schedules were gradually lowered from 20 to 12 operating shifts per week with attendant reductions in both labour and staff forces.

Our manufacturing organization responded to these conditions by increasing productive efficiency to levels significantly exceeding normal standards. They concurrently increased the number of sections our mill could roll from 69 to 96, and the number of steel grades we





Specialty products represent an increasing percentage of our business. At left is a truck tire ring used for wheel assemblies and manufactured from straight lengths of steel by a customer. The cross section of the rim above, now produced exclusively in Canada by Burlington Steel, indicates the intricate and precise rolling required.



This socket tongue is manufactured by the Slater Products Division from forging quality steel rolled by Burlington Steel. It is used to connect suspension clamps to ball socket insulators on power transmission lines.

This product display shows the varied sizes and shapes that the Division produces for regular sale. These commodities are available in a broad range of alloy, special bar quality and carbon steels.

produce from 29 to 41. This response was fully co-ordinated with our new marketing objectives.

The greater manufacturing demands of our new product line were met with personal innovation and increased application of technology. The Melt Shop devised a novel scheme that allows high quality aluminum killed billets to be continuously cast with superior surface quality characteristics. Our Rolling Mill re-engineered its entire roll pass design sequence to further ensure the dependable production of high quality steel bars. We also produced sections that had never been available from Canadian sources in spite of high tonnage sales opportunities.

Burlington's Maintenance organization responded with implementation of a comprehensive Preventative Maintenance Program which enhanced operating reliability and overall costs. Throughout our operation, inspection procedures and policies were also modified to guarantee the acceptance of the high quality products being added to our product line.

The high price of No. 1 quality scrap did decline from the all-time high levels of the previous fiscal year accompanying the general recession of the steel industry, and the relatively low price of \$55.00 per net ton held for several months. During this low price period we maximized our purchases of this important raw material. Just recently, No. 1 Scrap prices have increased by \$25.00 per net ton, reflecting both the upturn in steel business and the influence that escalating energy costs have on the real value of scrap metal for steelmaking purposes.

People Special emphasis was placed on communications with our employees during Fiscal 76 to assure their awareness of the circumstances and trends that were affecting our business. Classes were conducted for sales and operating people to familiarize them with the various aspects of our new specialty products and alloy steel metallurgy. Visits were made to

customer plants by both manufacturing and technical personnel for the same purpose. These efforts earned the support of our work force for manufacture of higher quality products.

Last year we achieved a major improvement in on-the-job safety at Burlington Steel, and we were in the top group of Ontario steel producers reporting under the Industrial Accident Prevention Association's rating system; a significant achievement.

Future outlook Historically, Canada's economic recessions have followed the United States within six months. This seems to be recurring. Business in the United States bottomed out last August; six months later we experienced a bottoming in Canada. Based on the economic recovery being experienced in the United States, we expect our business to gradually improve during the first months of Fiscal 77. Our new, broader and more specialized product line, coupled with this improvement in economy, promises a better year for Burlington Steel. Selective selling policies will guide our business strategy as our manufacturing capacity limits are reached.

Given the appropriate balance of business decisiveness and flexibility, the complete transition of Burlington Steel into a modern specialty mini-mill will take place in Fiscal 77.

Slater Products

Divisional sales and earnings during Fiscal 76 were an outgrowth of aggressive marketing supported by engineering services and product improvement programs in a strong Utility market. While the general economic recession of the past year very seriously impacted some industries, the influence on Slater Products was minimal. Our business level was sustained by annual contracts for a major portion of our sales.

While Utilities continued to be active in both construction and planning projects, constraints began to occur at mid-year as the result of the concern and questions raised by government, environmental groups and consumers. This changed priorities and schedules as well as short and long range project plans, causing deferral or cancellation of existing or forecast work for a majority of suppliers in this market. The net impact of these moves had only a small effect on current business, but created a significant shift in our projected product mix and sales emphasis for the coming year.

Marketing It is estimated that the Utilities market served by Slater Products declined by approximately 18% during Fiscal 76, more particularly in the latter part of the year. In spite of these conditions, our sales revenue increased by more than 13% over the previous year as a result of improved market penetration, new products, increased selling prices and project items related to the specialized hardware for the major provincial utilities use on new high voltage line developments. The E.H.V. hardware classification accounted for approximately one-third of our total revenue for the year.

We continued to place significant emphasis on development of new products, which accounted for 10% of the total sales for the year.

Our Export sales improved by 10%, while our licensing agreement with

Sherman & Reilly in the United States produced the first two orders for Slater proprietary E.H.V. hardware in the U.S. This latter sale represented a significant breakthrough for our products in a market having good future sale potential.

While our sale of standard hardware commodities remained unchanged from last year, the market deteriorated considerably and was about 35% below forecast. The presence of high inventories established as a hedge against the period of material shortages and long lead times in 1974 and early 1975, and the downturn in the economy itself, had a major impact on this market segment. This was further compounded by reduced requirements from the communication industry primarily because of restricted rate increases for various telephone companies across the country.

The O.E.M. segment of our business increased by 11%, in spite of the direct influence of the economic downturn. This gain was achieved through development of new accounts and maximizing conversion services from our manufacturing facilities, as well as direct sale of specific commodities.

Manufacturing The major emphasis in manufacturing has been toward more effective use of our facilities and supporting services. At the same time, we have responded to the market changes during the year which have had a specific effect on product mix and production loading. Our computer programs were advanced to provide improved refinement over systems related to production planning, inventory control and sales forecasting. Installation of our "in house" hardware at year end provided a basis



for further expansion of EDP services essential to critical data and operating efficiencies. Our cost reduction activities continued to receive priority attention, especially in areas of automation, material handling and manufacturing methods.

The work force level remained relatively stable for both hourly and salaried personnel. Specific training programs were implemented for our employees relative to the technical aspects of our various practices, as well as through job rotation. An updated Safety Manual was developed and implemented and an extensive first aid training program for all personnel was introduced. Our accident frequency performance improved over last year and remains better than the average for our industry.

Future We enter Fiscal 77 with a much different set of market conditions in the Utilities industry than existed a year ago. The reappraisal of power requirements by various provincial authorities has resulted in significant construction program delays, as well as sizable cancellations to conform to revised growth projections and building schedules. This change in conditions will have the greatest impact on the project segment of our business, which is now estimated to be at approximately one-half the level of Fiscal 76. It is our intention to fill this gap through increased sales of standard hardware and a continued emphasis on O.E.M. activity. We have strengthened our selling organization to support this plan and will supplement our field work with additional engineering services and technical consultation. Maximum effort will be directed to our product improvement and development program which is expected to account for 20% of our Fiscal 77 sales.

The coming year will be the initiation of a changing pattern at Slater Products,



(Top) The Wedge-Grip terminal for guys is shown in the final stage of development testings. This unique patented innovation combines the holding power of Preformed elements in a wedge socket permitting fast, foolproof termination rated through 300,000 lbs. required by modern E.H.V. guyed transmission structures.

(Bottom) The pictured dead-end assembly terminates the 100,000 lb. load imposed by the four conductor phase bundle operating at 500,000 volts. The design expertise of this component insures full control of the electric field and wind induced vibration to provide long term reliable performance as part of Ontario Hydro's 500 Kv system.

with the start of our new manufacturing facilities in Burlington, Ontario. We have acquired an excellent 30 acre site on Harvester Road which will accommodate a modern production plant with improved equipment and layout to support future needs of our planned business activities. Construction of the new plant will be phased over several years starting with a warehouse and shipping department. During this period we will continue to modify and improve our production facilities and layout at the existing plant site, preparatory to installation of the various operations at the new site. This program requires constant planning and evaluation in order to optimize our processes on a regular basis, and to provide acceptance of changes and new equipment.

Energy availability, costs and utilization has become a key issue in the future health and growth of our Canadian economy. Our governments have increased their involvement in the planning, financing and setting of priorities for this important element. While Utilities have developed their respective programs and plans for the future, compromises and changes will occur as a result of the existing and increasing overriding controls and authority of both federal and provincial government bodies.

Electricity is not energy in itself, but a method of utilizing energy, which is, by far, the most efficient system available. It is essential that the basic facts related to energy costs and availability are clearly defined for the public in order that suspicions, questions and needless inquiries can be reduced. Only then will the Utilities be able to proceed with practical development programs to sustain the future needs of both industrial and domestic consumers.



Wayne D. McCraney,
Director - Personnel & Industrial
Relations

Personnel

A new dimension to personnel and industrial relations was added this year, particularly in the areas of compensation and benefits administration, as a result of the restraints imposed by the Anti-Inflation Legislation.

The first requirement of reporting the structuring of employee groups did not present a problem, although detailed reporting of historical and future plans pertaining to compensation and benefits required frequent consultation with the administrative staff of the Anti-Inflation Board.

Labour contract talks, which occurred during the second half of the year, were not affected directly. However, the monetary elements of the settlements have not been implemented pending the Board's review and direction.

Employee wages, salaries and benefits

The average manpower level was 1,087 employees, 124 less than the average for the previous fiscal year. The total wages and salaries paid for work was \$13,472,000 with an additional \$1,327,000 being paid for vacation pay and statutory holidays. Premiums for group insurance plans were \$574,000, while company contributions to pension plans were \$839,000. A further \$663,000 was paid to government programs (Canada/Quebec Pension Plan, Unemployment Insurance, Workmen's Compensation, OHIP).

During the first half of the fiscal year, pressures on incomes brought about by rising living costs continued to be a significant problem. However, during the last six months, the rate of increase dropped substantially.

Collective agreements The previous agreement for the hourly employees of the Burlington Steel Division expired December 31, 1975. Negotiations resulted in a memorandum of settlement being signed January 30, 1976, the financial terms of which were similar to those improvements implemented by the local steel industry in July 1975.

The previous Slater Products Division labour contract terminated January 31, 1976. Negotiations resulted in agreement on all outstanding items on April 2, 1976. The economic pact compares with wage and benefits improvements granted by industry in our general vicinity.

Since each of the settlements was in excess of the allowable limits prescribed by the Anti-Inflation Regulations, application for approval has been made to the Board.

Safety Continued attention and emphasis was given to employee safety in the operating divisions. Based on the premise that manufacturing facilities must be clean before they can be safe, both organizations implemented formal inspection procedures to monitor and improve their respective plant-keeping habits. These steps were introduced to complement the various requirements under the Safety Manuals.

At Burlington Steel, the lost-time accident situation improved substantially

as the division moved to the top portion of its grouping under the Industrial Accident Prevention Association reporting system. During the year, two other significant achievements occurred – the plant went 98 consecutive days without a lost-time accident and the Maintenance Department, Laboratories and Stores had a lost-time accident-free year.

The Slater Products Division continued its history of having lost-time accident frequency below the average for its I.A.P.A. grouping.

Hourly employee suggestion plan Successful employee suggestions produced awards totalling \$2,500 during the fiscal year. This was down \$1,300 from the previous year, with fewer suggestions being submitted.

It is felt that a sound suggestion program provides an excellent basis for employees to submit their ideas with respect to cost reduction, safety and waste reduction. Accordingly, emphasis will be placed on improved communications in the upcoming year in an effort to stimulate further employee participation.

Salaried employee development In the interest of developing our people and providing opportunities for promotion from within, each employee was provided with a performance appraisal as part of the overall employee development program. In these sessions, the supervisor explains strengths and weaknesses and details a plan on how a subordinate may improve his/her shortcomings, including on-the-job counselling, seminars, formal academic courses, etc. These sessions are designed, also, to allow a subordinate to feed back to the supervisor his/her impression of the appraisal, observation of style of leadership and generally to participate in the career planning aspect.

Forty employees were reimbursed for successful course completion under the Tuition Aid program.

Loss control Further measures were introduced to optimize the protection of the company's physical resources. An Emergency Measures Manual was developed for the Burlington Steel Division of which the majority of elements have been implemented. A similar document has been developed for the Slater Products Division and is in the implementation stage.

Public relations Public Relations was formalized as a responsibility of the Corporate Personnel Department. Community involvement was established by way of participation in relevant associations and committees. A Secondary School was visited in which discussions were held with senior students on career planning, interviewing techniques and opportunities in general. Initial planning occurred with respect to establishing an industrial/academic "Twinning" program with a local Secondary School. Discussions were held with our local press as a basis for improving our media relations and related items of public interest arising out of an industrial environment.

A meeting was also held with our local Federal Members of Parliament to discuss the activities and concerns of Slater Steel Industries Limited as a basis for improving communications and understanding with our elected government representatives.



Ronald B. Wilson,
Vice President — Administration
& Finance and Secretary

Administration and financial review

Sales and earnings Net sales for the fiscal year ended April 3, 1976 were \$50,288,000, down 21% from the previous year. The decrease from the record levels of fiscal 1975 reflects reduced sales by the Burlington Steel Division, where tonnages shipped were down 31% because of a sharp decrease in demand for steel bar products.

Earnings from operations, before the equity in earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) were \$1,906,000, down 48% from the level of fiscal 1975. As a percentage of sales 1976 earnings were 3.8% and 1975 earnings 5.7%. Including the equity in earnings of IPSCO, net earnings were \$3,950,000 or \$1.38 per common share, down from last year's record earnings of \$8,236,000 or \$3.03 per common share.

Sharply higher costs for utilities, supplies and wages and salaries, coupled with the lower shipments and reduced activity level at Burlington Steel, have increased costs very significantly. Part of this increase was offset by the 26% lower cost of scrap this past year.

Working capital During the fiscal year, \$10,000,000 in short term bank borrowing was converted to three year term bank loans, due on March 15, 1979, with interest at one-half of one percent above the prime bank rate. The conversion of these loans contributed to the increased working capital at year end to \$17,785,000 (or a ratio of 3.1 to 1) from \$8,354,000 (1.5 to 1) at the end of fiscal 1975. This interim term financing allows the company time to determine its total future needs for funds, particularly in connection with the consideration of investing in a new rod mill.

Accounts receivable and inventory levels remained virtually the same from one year to the next. Receivables reflect the upturn in Burlington Steel shipments in the last month of the fiscal year offset by the continuation of the policy of shorter

Net sales Millions of dollars

1972	34.2
1973*	16.9
1974	44.2
1975	63.8
1976	50.3

Net earnings Millions of dollars

1972	2.6
1973*	1.1
1974	5.1
1975	8.2
1976	3.9

Capital expenditures Millions of dollars

1972	3.1
1973*	5.0
1974	2.1
1975	4.9
1976	3.3

Earnings per common share Dollars

1972	0.84
1973*	0.36
1974	1.81
1975	3.03
1976	1.38

Shareholders' equity per common share Dollars

1972	11.74
1973	11.81
1974	13.05
1975	15.43
1976	16.17

*For the 5 month period ended March 31, 1973.

trade terms established a year ago. Because of lower shipments during the year, production activity was adjusted downward so that the inventory investment would remain relatively constant.

IPSCO Earnings reported by IPSCO to its shareholders for the twelve month period ended February 29, 1976 were \$11,291,000 compared to \$21,995,000 for the previous similar period. This decrease is reflected in equity earnings reported in the Statement of Earnings.

The cost of the investment in IPSCO exceeded the net book value of that investment by \$9,439,000. In order to bring the Slater Steel book value more in line, the Board of Directors has authorized the amortization of this excess cost, over a period of 40 years, by reducing in each year the company's equity in earnings of IPSCO ; accordingly, the equity earnings for fiscal 1976 has been reduced by \$236,000 or 9¢ per common share.

Capital expenditures Additions to fixed assets totalled \$3,277,000 during fiscal 1976, down from \$4,945,000 in the previous year. The major items in this year's program were the completion of the melt shop expansion and the new warehouse for the Burlington Steel Division and the purchase of approximately 30 acres of land in the City of Burlington, Ontario for the future expansion of the Slater Products Division.

Authorized capital additions were curtailed during the latter part of the fiscal year resulting in reduced capital expenditures during the last quarter. This reduced level of capital spending will continue into the first six months of fiscal 1977.

Major capital expenditures planned for the new year include the renovation of the grinding ball shop at the Burlington Steel mill and the start of construction of a new warehouse in Burlington, Ontario for the Slater Products Division.

Shareholders Equity per common share at year end was \$16.17 per common share on the 2,582,332 shares outstanding, an increase of 74¢ over the previous year. Included in this increase is the surplus realized on the retirement of preference shares which amounted to 4¢ per common share.

Distribution of sales dollar	1976	1975
Salaries, wages and employment costs	34%	28%
Raw materials used	29	39
Other goods, supplies, services	20	15
Fuels and utilities	6	5
Depreciation	4	3
Income taxes	3	4
Operating earnings before IPSCO equity	4	6

Dividends on common shares during the year were maintained at the rate of 17¢ per quarter, which represented 79% of earnings when the excess of IPSCO earnings over dividends received (a non-cash flow item) is removed from the company's earnings.

Anti-Inflation legislation On December 18, 1975 regulations were issued by the Canadian Government under the Anti-Inflation Act. This program provides restraints on selling prices, profits, compensation and dividends, effective October 14, 1975. Using the regulations issued and the information available, the company believes it has complied with the regulations during the 1976 fiscal year. As this program extends to December 31, 1978, we are unable, at this time, to assess the long range impact of the program on the company's future earnings.

Information systems In March 1976 the company took delivery of its own in-house computer for the processing of data through computer programs previously done by various computer centres. This processing system – an IBM System 3, Model 15 – will initially process the

inventory control and scheduling systems and the sales analyses systems for the Slater Products Division.

In the coming year, many of the accounting and payroll functions will be converted to our computerized techniques. The result should be a more comprehensive, flexible and timely reporting system for the company and the Slater Products Division in particular.

Purchasing The main emphasis in purchasing functions in fiscal 1975 was on the sourcing of raw materials and supplies. In the past year, as commodities became available, efforts were redirected to developing alternate sources of supply and alternative commodities, both at lower cost. Spiralling costs continued, particularly for energy related items, such as electrodes and alloys, and for utilities such as power, water and gas.

Scrap inventories were kept at levels related to production activity until later in 1975 when with the price of scrap at the lowest level in several years, steps were taken to increase tonnages in inventories to higher levels. By fiscal year end, the scrap price had increased almost 50%, with our inventories containing a favourable mix of scrap at late 1975 values.

For fiscal 1977, the emphasis will continue on reducing the costs of raw materials and supplies by use of purchasing techniques, such as our value analysis program.

Consolidated Balance Sheet

Slater Steel Industries Limited

(in thousands of dollars)

	as at April 3 1976	as at March 29 1975
Current Assets		
Accounts receivable	\$ 7,488	\$ 7,052
Inventories (Note 2)	18,389	18,032
Other current assets	394	253
	26,271	25,337
Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) (Note 4)	23,525	22,185
Fixed Assets (Note 3)	26,097	24,810
Other Assets	165	211
Total Assets	\$76,058	\$72,543
Current Liabilities		
Bank advances	\$ 3,572	\$ 8,512
Accounts payable and accrued charges	3,921	5,654
Income taxes payable	456	2,276
Dividends payable	537	541
	8,486	16,983
Long Term Debt (Note 5)	11,545	1,653
Deferred Income Taxes	7,440	6,910
Shareholders' Equity		
Preference shares (Note 6)	6,828	7,144
Common shares (Note 7)	12,428	12,428
Retained earnings	29,331	27,425
	48,587	46,997
Total Liabilities and Shareholders' Equity	\$76,058	\$72,543

On behalf of the Board
G. P. Osler, Director
B. M. Hamilton, Director

Consolidated Statement of Earnings

Slater Steel Industries Limited

(in thousands of dollars)

	year ended April 3 1976	year ended March 29 1975
Net sales	\$50,288	\$63,846
Cost of sales, excluding the following items	43,879	55,128
Depreciation	1,990	1,711
Interest on long term debt	150	95
Other interest	1,071	504
	47,090	57,438
	3,198	6,408
Income taxes		
Current	762	2,165
Deferred	530	610
	1,292	2,775
Earnings before equity in earnings of IPSCO	1,906	3,633
Equity in earnings of IPSCO (Note 4)	2,044	4,603
Net earnings for the year	\$ 3,950	\$ 8,236
Net earnings per common share	\$ 1.38	\$ 3.03

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	year ended April 3 1976	year ended March 29 1975
Balance at beginning of year	\$27,425	\$21,277
Net earnings for the year	3,950	8,236
Surplus realized on retirement of preference shares	108	81
	31,483	29,594
Dividends		
Preference shares	396	413
Common shares	1,756	1,756
	2,152	2,169
Balance at end of year	\$29,331	\$27,425

Consolidated Statement of Changes in Financial Position

Slater Steel Industries Limited

(in thousands of dollars)

	year ended April 3 1976	year ended March 29 1975
Source of Funds		
Operations		
Earnings before equity in earnings of IPSCO	\$ 1,906	\$ 3,633
Depreciation	1,990	1,711
Deferred income taxes	530	610
Dividends received	704	469
Funds from operations	5,130	6,423
Short term bank borrowings refinanced as long term debt	10,000	—
Decrease in other assets	46	34
	15,176	6,457
Use of Funds		
Net additions to fixed assets	3,277	4,945
Redemption of debentures	108	—
Retirement of preference shares	208	189
Dividends	2,152	2,169
Investment in IPSCO	—	600
	5,745	7,903
Increase (Decrease) in Working Capital	9,431	(1,446)
Working Capital at Beginning of Year	8,354	9,800
Working Capital at End of Year	\$17,785	\$ 8,354

Notes to Consolidated Financial Statements April 3, 1976

1 Summary of principal accounting policies

Principles of Consolidation The consolidated financial statements include the accounts of Slater Steel Industries Limited and its wholly owned subsidiary, N. Slater Company, Limited. The investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) is accounted for by the equity method and includes equity in undistributed earnings to February 29, 1976, based on the latest information reported to its shareholders.

Inventories Inventories are valued at the lower of cost and net realizable value. Inventories of Slater Products Division are recorded at standard cost and inventories of Burlington Steel Division are recorded at average cost, both systems based on current material, labour and overhead costs.

Income Taxes Income taxes are provided on the tax allocation method and the resultant deferred income taxes result principally from claiming depreciation for tax purposes in excess of depreciation provided. The Federal investment tax credits are accounted for by the flow through method.

Fixed Assets In 1961, property, plant and equipment of the Burlington Steel Division was restated to reflect depreciated replacement value as appraised by Warnock Hersey Appraisal

Company Ltd. All other fixed assets, including subsequent additions to the Burlington plant, are recorded at cost. Depreciation is provided on a straight line basis by the Burlington Steel Division and on a declining balance basis by the Slater Products Division at rates intended to write off these assets over their estimated useful lives.

2 Inventories

	1976	1975
	(in thousands of dollars)	
Raw materials and supplies	\$ 6,525	\$ 7,607
Work in process	3,892	4,453
Finished goods	7,972	5,972
	\$18,389	\$18,032

3 Fixed assets

	1976	1975
	(in thousands of dollars)	
Land	\$ 3,198	\$ 2,316
Buildings, machinery and equipment	38,805	36,446
	42,003	38,762
Less accumulated depreciation	15,906	13,952
	\$26,097	\$24,810

4 Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)

This investment in 938,400 common shares of IPSCO represents 20.2% of its issued and outstanding common shares.

The total excess cost of the shares over the underlying net book value of the investment at acquisition amounts to

\$9,439,000. Commencing in the current year the equity in earnings of IPSCO has been reduced by an amount sufficient to amortize the total excess cost over a forty year period. This change resulted in a reduction in the company's equity in earnings of IPSCO of \$236,000 for the year.

The investment is stated at cost as so reduced, plus equity in undistributed earnings since date of acquisition.

5 Long term debt

	1976	1975
	(in thousands of dollars)	
Sinking fund debentures		
6% Series A due January 1, 1982	\$ 329	\$ 329
6¼% Series B due February 15, 1983	568	676
5½% Series D due May 15, 1984 (U.S. \$600,000)	648	648
Term bank loans	10,000	—
	\$11,545	\$ 1,653

Sufficient debentures have been purchased for cancellation to eliminate the sinking fund requirements over the next five years.

Term bank loans bearing interest at rates ½% above the lenders' prevailing prime commercial rate are due on March 15, 1979.

6 Preference shares

Authorized and outstanding — 341,413 shares (1975 — 357,210 shares) of \$20 par value each redeemable at par

	1976	1975
	(in thousands of dollars)	
65,185 shares (1975 — 69,195) 5½% cumulative redeemable, \$1.10 Series	\$ 1,304	\$ 1,384
136,264 shares (1975 — 141,779) 5½% cumulative redeemable, \$1.10 Second Series	2,725	2,835
139,964 shares (1975 — 146,236) 6% cumulative redeemable, \$1.20 Series	2,799	2,925
	\$ 6,828	\$ 7,144

During the year the company purchased for cancellation, 4,010 \$1.10 Series, 5,515 \$1.10 Second Series, and 6,272 \$1.20 Series preference shares for \$208,000. The company has met its obligations with respect to the purchase fund requirements attached to the preference shares.

7 Common shares

Authorized — 4,000,000 shares without par value, of which 2,582,332 are issued. An employee stock option which expires August 31, 1977 is outstanding on 3,900 shares at \$10.25 per share.

8 Anti-inflation program

Effective October 14, 1975, the Federal government passed the Anti-Inflation Act and subsequently issued Regulations which are in force until December 31, 1978. Under this legislation, the company's ability to increase prices, profit margins, compensation and dividends is subject to restrictions during the period in which the Act and Regulations are in effect.

9 Remuneration of directors and senior officers

The aggregate remuneration paid or payable to the directors and senior officers of the company was \$399,000 (1975 — \$310,000).

10 Pension plan liability

Pension costs charged against earnings in the year include payment made to trust funds for current and past service requirements as determined by independent actuarial estimates. Unfunded past service costs, not included in the financial statements, amount to \$2,500,000 at April 3, 1976. This amount will be funded over a period ending in 1989.

Auditors' Report

To the Shareholders of Slater Steel Industries Limited :

We have examined the consolidated balance sheet of Slater Steel Industries Limited, its subsidiary and its investment in Interprovincial Steel and Pipe Corporation Ltd. stated at cost plus equity in undistributed earnings since date of acquisition, as at April 3, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at April 3, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for the excess of cost over net book value of the investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) with which we concur, as referred to in Note 4 to the financial statements, have been applied on a basis consistent with the preceding year.

Coopers and Lybrand
Chartered Accountants
May 4, 1976, Hamilton, Canada

Five Year Review

	1976	1975	1974	(5 months) 1973	1972
Sales and earnings (in thousands of dollars)					
Net sales	\$50,288	\$63,846	\$44,242	\$16,933	\$34,260
Income taxes	1,292	2,775	1,715	862	2,537
Net earnings	3,950	8,236	5,112	1,147	2,609
Capital expenditures					
Depreciation	1,990	1,711	1,437	432	1,040
Cash generated from operations (Note A)	5,130	6,423	6,663	1,250	4,240
Year end position (in thousands of dollars)					
Working capital	17,785	8,354	9,800	8,003	28,180
Fixed assets – net	26,097	24,810	21,576	20,872	16,319
Total assets	76,058	72,543	58,696	50,947	48,171
Long term debt	11,545	1,653	1,653	1,872	1,892
Common shareholders' equity	41,759	39,853	33,705	30,486	30,323
Statistics per common share					
Earnings	1.38	3.03	1.81	.36	.84
Dividends	.68	.68	.60	.30	.60
Shareholders' equity	16.17	15.43	13.05	11.81	11.74
Other statistics					
Number of employees	991	1,202	1,242	1,076	1,030
Number of shareholders	6,141	6,341	6,361	6,319	6,359

Notes:

(A) Cash generated from operations consists of net earnings including dividends received, plus depreciation and deferred income taxes.

(B) The results cover the year ended October 31 in 1972 with the year end being changed to March in 1973.

Slater Steel Industries Limited

Directors

Dr. Arthur N. Bourns
President and Vice Chancellor,
McMaster University

Barrie Cheetham
Regional Co-Ordinator, North America,
British Steel Corporation (International) Ltd.

Ralph W. Cooper*
Chairman,
Cooper Construction Company Limited

J. Michael Edwards
Managing Director,
British Steel Corporation (International) Ltd.

Bruce M. Hamilton*
President of the Corporation

Douglas C. Marrst
President,
Westinghouse Canada Limited

Richard C. Meech, Q.C.*†
Partner,
Borden & Elliot

Gordon P. Osler*
Vice Chairman and Chief Executive Officer,
British Steel Corporation (Canada) Limited
Chairman of the Corporation

Norman B. Preece*†
President,
Stanton Pipes Limited

*Member of Executive Committee of the Corporation
†Member of Audit Committee of the Corporation

Officers of the Corporation

Gordon P. Osler
Chairman of the Board
Bruce M. Hamilton
President
Ronald B. Wilson
Vice President-Administration & Finance
and Secretary
David W. Albright
Treasurer
J. David Smart
Comptroller

Officers of Burlington Steel Division

John E. Fogarty
Vice President-General Manager
John F. Miles
Vice President-Manufacturing
A. Gordon McDonald
Vice President-Marketing

Corporate Offices

Slater Steel Industries Limited
681 King Street West
P.O. Box 271, Hamilton, Ontario L8N 3E7

Divisions

Burlington Steel Division
319 Sherman Avenue North
P.O. Box 271, Hamilton, Ontario L8N 3E7
Slater Products Division
681 King Street West
P.O. Box 271, Hamilton, Ontario L8N 3E7

Associated Company

Interprovincial Steel and Pipe Corporation Ltd.
P.O. Box 1670, Regina, Saskatchewan S4P 3C7

Registrar & Transfer Agents

Montreal Trust Company
Toronto, Montreal, Vancouver, Winnipeg.

Listed

Toronto Stock Exchange

Auditors

Coopers & Lybrand, Chartered Accountants

Slater Steel Industries Limited

681 King Street West, P.O. Box 271, Hamilton, Ontario L8N 3E7